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TAGS: ECON EFIN PGOV VE
SUBJECT: GOV TAKES FULL CREDIT FOR GDP GROWTH, BUT STILL PASSES BLAME

Classified By: ECONOMIC COUNSELOR RICHARD M. SANDERS FOR REASON 1.4 B AND D

SUMMARY

¶1. (SBU) First half GDP statistics show a 23.1% increase over last year, which also represents the first improvement over 2002 figures. Second quarter growth was 13.6%, led by non-petroleum growth of 15.0%. Considering these factors, the GOV has revised its 2004 growth estimate from 6 to 12%. Meanwhile, S&P raised Venezuela's long and short-term credit ratings to B. The official GOV line, in public and private, is that things are good, are going to get better, and that the only reason they are not better now is because of the general strike of December 2002-February 2003, not the government. In its annual report for 2003 as elsewhere, the GOV downplays the fact that good news are largely a result of the substantial increase in oil prices in 2003 and 2004. END SUMMARY.

THINGS ARE GOOD - BUT IF NOT, IT'S NOT OUR FAULT

¶2. (U) New GDP statistics released recently by the Venezuelan Central Bank (BCV) indicate that not only did Venezuelan GDP grow 23.1% in 2004 compared to the same period of 2003 (with growth in all sectors of the economy for the first time in three years), but that it grew by 4.4% over the same period in 2002, before the two month general strike of 2002-2003. The increase is in part because the government also revised the first quarter growth upward, from 29.8% to 34.8%. Second quarter growth was not only 13.6% compared to last year, but 4.5% over the first quarter of 2004. Almost simultaneous to these announcements, Standard and Poor's raised Venezuela's long and short-term credit ratings (from B- and C, respectively) both to B.

¶3. (SBU) The GOV, while taking credit for the recent good news, has avoided all responsibility for Venezuela's economic problems by blaming the participants of the December 2002-February 2003 general strike, as criticism of their economic policy has continued. The Ministry of Finance's "Summary of Year 2003" (written in early 2004 but distributed only recently) starts and continues for much of the text by blaming the strike, and 2002 pre-strike activities, for all problems in the economy. The report uses harsh language, repeatedly citing "financial blood-letting," the "devastating effect" of the strike, the "immense harm inflicted on the country," "traitors and conspirators," "political destabilization," and the "ferocious media campaign against the national economic policy." Y2003 claims that the effects of the strike "cannot be erased for a long time," and adds that those who called for the strike, and now blame GOV policy for the current problems, "are conceptually and morally incapable of speaking to the nation." It also asserts that the strikers have not put forth a recovery plan, and now "maintain biased positions which in no way favor improvement of the productive climate of the country."

¶4. (SBU) The report also cites a study conducted by the Ministry of Finance to prove just how wrong some of its critics were with their own estimates about GDP and inflation in 2003. These errors by "experts" led the Ministry to conclude that, "definitely, the country overcame an extremely difficult test, and has managed to set itself upon the path of economic recovery and growth." When Finance Minister Tobias Nobrega was asked, in an interview televised on August 28, what the GOV could have done better economically over the last five years, he could only come up with "perhaps a mistake was not to have applied exchange controls in February 2002."

WE'RE DOING THINGS RIGHT, BUT DON'T ASK FOR SPECIFICS

¶5. (SBU) Not until page 9 of the 36 page text does the study mention a single action by the GOV - the imposition of exchange controls. It then lauds the work of the Foreign Exchange Control Administration (CADIVI): "the objective of protecting the international reserves and avoiding the financial blood-letting of the country has been achieved. International reserves closed 2003 above USD 20 billion. The specter of a moratorium or cessation of payments has dissipated. The patrimony of the Venezuelans was preserved." Some of the alleged achievements are dubious, such as noting that CADIVI liquidated 50% of the forex it approved in 2003, It also claimed that CADIVI approved - NOT/NOT liquidated - "about" what the BCV provided before the "petroleum sabotage," though BCV statistics indicate that liquidations in 2003 were only about 60% of those in 2002.

¶6. (C) The improvement of the economy has raised the question as to why CADIVI still exists. The report reminds us that it was conceived to be temporary, but "its dismantling can only be a response to the disappearance of conditions that gave rise to its adoption, that is, the definitive extinction of the environment of irrationality and political and economic destabilization that has dominated since 2002." In a private conversation with econoff on September 1, Finance Ministry Director of Public Credit Alejandro Dopazo confirmed that exchange controls will not be lifted until the GOV has the mechanisms "to control the capital account." Nobrega, in the August 28 interview, implied that CADIVI was needed because Venezuelans still lacked confidence in the economy. He said that exchange controls were "the only manner to guarantee that the foreign currency...stays here."

HERE ARE (SOME OF) THE STATISTICS TO PROVE IT

¶7. (SBU) The GOV has endeavored to justify its performance by citing various statistics, but it consistently tells only a part of the story. For example, total GOV income for 2003 was 88.9% of goal, despite the strike. However, Customs collections were only 57.4% of goal, a side effect of the initial sluggishness of CADIVI's operations. The report says that "Plan Zero Evasion" (a program to increase tax collections by SENIAT, the Venezuelan tax and Customs agency) brought in an additional USD 7.5 million - which is only 0.13% of total tax revenues - ignoring the fact of increased revenue from high petroleum prices. It lauds the dramatic drop in the EMBI Plus risk rating (a measure of credit risk of government debt relative to U.S. Treasury bonds) from its high in early 2003, but fails to mention that it reached similar peaks four other times during Chavez's tenure (including February, July and October of 2002), and remains higher than Colombia's rating.

¶8. (C) On government spending, the report cites a budget reduction in January 2003, but does not mention - as statistics from the Ministry of Finance website show - that year-end spending increased by 34.4%. The budget portion is long on names of projects funded, but short on details such as amounts spent. It notes that internal debt increased, but not how much. (According to the Ministry website, it grew 48.0%.) On external debt, the report claims that investor efforts to sell Venezuelan debt were triggered by the "campaign launched against the Republic." The GOV response was to "take advantage of the circumstances in the financial market" and lists in great detail - over 15% of the total text - the terms of new dollar-denominated bonds that were issued that year, but neglects to mention how the total external debt was affected (it increased 13.0%, according to the website, and from 20.9% of GDP to 26.8%, according to VENAMCHAM). Dopazo was evasive when asked if debt would increase this year, saying only that the Ministry is "studying" bond options.

COMMENT

¶9. (C) Comparing 2004 results to strike-affected 2003 is of limited utility, but that the first semester improvement is an increase over the first half of 2002 (though still 5.3% lower than the GDP in the first half of 1998, before Chavez assumed the Venezuelan presidency) is a positive sign. The deficit, however, continues to grow, as government spending for the year, which may be the primary cause for GDP growth, is projected to be 32% of GDP, a 21-year high. GOV officials, while touting their good numbers, seem to be determinedly avoiding the obvious, that Venezuela is hitting one of its cyclical petroleum booms, and the Chavez government is doing what previous governments have done - spend the money as fast as possible.
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